

Message Text

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ACTION SS-20

INFO OCT-01 EA-11 ISO-00 EB-11 AID-20 COME-00 SCEM-02

INT-08 OMB-01 TRSE-00 NEA-10 AF-10 SCI-06 IO-14 PM-07

NSC-10 SPC-03 RSC-01 L-03 INR-10 NSAE-00 DRC-01 /149 W

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TO SECSTATE WASHDC PRIORITY 6809

INFO SECDEF WASHDC

CINCPAC HONOLULU HI

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E.O. 11652: N/A

TAGS: ENRG, LA, EAID, MCAP

SUBJECT: ENERGY CRISIS IN LAOS

REF: VIENTIANE 7936

SUMMARY. THE U.S. MISSION IN LAOS MUST CHANGE ITS CONTRACTING AGENT FROM MILITARY TO CIVILIAN IN VIEW OF SHELL COMPANY'S DECISION NOT TO SUPPLY FUELS FOR LAOS UNDER DEFENSE FUEL SUPPLY CENTER (DFSC) CONTRACTS. THEREFORE, WE REQUEST EARLY AUTHORIZATION AND DESIGNATION OF USAID AS CONTRACTING AGENT FOR THESE TWO SHELL CONTRACTS. END SUMMARY

1. AT PRESENT POL PRODUCTS FOR LAOS ARE CONTRACTED AND FINANCED IN THE FOLLOWING FOUR WAYS:

A. DFSC CONTRACTS FOR ALL AVIATION AND GROUND FUELS FOR ROYAL LAO GOVERNMENT ARMED FORCES, ALL AIR CONTRACTS
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IN SUPPORT OF RLG (AIR AMERICA, CASI, BIRD & SON) AND

FOR CERTAIN USAID PROJECTS WHICH ARE COST-SHARED WITH DOD (E.G., NAM MO-LONG TIENG ROAD CONSTRUCTION). FUNDS ARE PROVIDED BY AND THROUGH DOD FOR ALL THESE CONTRACTS.

B. USAID ITSELF CONTRACTS FUEL FOR ALL ITS OTHER PROJECTS AND INTERANL OPERATING REQUIREMENTS (VEHICLES, GENERATORS, ETC.). IN ADDITIONA, USAID PROVIDES GROUND POL PRODUCTS TO RLG FOR SOME OF ITS OPERATIONS (E.G., MINISTRY OF PUBLIC WORKS). THESE POL PRODUCTS ARE FINANCED THROUGH AID APPROPRIATIONS.

C. U.S. EMBASSY CONTRACTS FOR FUEL SEPARATELY FROM AID FOR ITS VEHICLE FLEET AND GENERATOS. THESE REQUIREMENTS ARE FINANCED BY STATE DEPARTMENT.

D. COMMERCIAL FUEL IMPORTS OF ALL TYPES FOR LAO CIVIL CONSUMPTION ARE SUPPLIED BY FOUR COMMERCIAL OIL COMPANIES. THEY SUPPLY THE CIVIL MARKET AND SOME RLG REQUIREMENTS. FOREIGN EXCHANGE FOR THESE PURCHASES IS PROVIDED THROUGH FEOF.

2. OF THESE FOUR METHODS OF SUPPLY, ONLY ONE SUPPLIER FOR LAO NEEDS IS CURRENTLY AFFECTED BY ARAB OIL EMBARGO: DFSC. ON NOVEMBER 22, SHELL OIL COMPANY TERMINATED ALL DFSC CONTRACT DELIVERIES EXCEPT AVIATION, GAS, JET AND AVIATION LUBES. THE LATTER THREE PRODUCTS WILL ONLY BE AVAILABLE UNTIL THE QUANTITY OF AVIATION GAS BONDED FOR LAOS IS CONSUMED. WE EXPECT THIS AMOUNT TO LAST FOR APPROXIMATELY 3 MONTHS UNDER THE STRINGENT CONTROLS NOW IN EFFECT. CURRENT STOCKS OF MOTOR GAS AND DIESEL FUEL CONTRACTED FOR BY DFSC WILL MEET OUR MINIMUM REQUIREMENT ONLY UNTIL DECEMBER 31, 1973. HENCE WE MUST URGENTLY FIND A WAY OF OBTAINING THOSE SHELL COMPANY PRODUCTS HERETOFORE CONTRACTED FOR BY DFSC BY SUBSTITUTING ANOTHER CONTRACTING AGENCY ACCEPTABLE TO SHELL. WE RECOMMEND THAT USAID BE DESIGNATED AS CONTRACTING AGENT FOR THOSE SHELL CONTRACTS PRESENTLY HELD BY DFSC FOR LAO PROGRAM NEEDS.

3. DFSC PRESENTLY CONTRACTS WITH SHELL AND ESSO TO LIMITED OFFICIAL USE

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MEET LAO NEEDS. THE LATTER COMPANY HAS ASSURED US THAT IT WILL CONTINUE TO HONOR ITS CONTRACTS WHICH PROVIDE AVIATION FUELS AND LUBRICANTS TO U.S. AIR CONTRACTORS AND RLAF WORKING OUT OF UDORN, LUANG PRABANG AND BAN HOUET SAI. HENCE, THE PROBLEM IS TO HAVE AN ACCEPTABLE CIVILIAN AGENCY ENTER INTO CONTRACT WITH SHELL FOR THOSE COMMODITIES HERETOFORE CONTRACTED BY DFSC.

4. WE HAVE CALCULATED OUR ABSOLUTE MINIMUM REQUIREMENTS FOR THE REMAINDER OF FY 74 (EXCLUDING PRESENT STOCKS) OF THOSE PRODUCTS PRESENTLY SUPPLIED BY THE SHELL COMPANY. WE HAVE ALSO ESTIMATED THE COST OF THESE PRODUCTS ON THE ASSUMPTION THAT THEY ARE PROCURED AT THE COMMERCIAL RATE RATHER THAN THE CONSIDERABLY MORE ADVANTAGEOUS DFSC PRICE:

PRODUCT	MIN. REQ US GALLONS	\$ COST-COMMERCIAL
AVGAS	1,747,754	1,013,697
JET A-1	1,571,696	801,565
LAD II	40,000	100,000
AD I	6,000	15,840
SOLVENT	20,000	14,000
MOGAS		
DRUM	545,668	207,354
COST OF DRUMS		50,525
BULK	1,167,628	408,670
DIESEL		
DRUM	301,450	111,537
COST OF DRUMS		27,912
BULK	755,679	256,931
AUTO GO-90	10,000	17,500
KEROSENE	30,000	10,800

\$3,039,106

5. IT IS APPARENT FROM THIS TABLE THAT USING COMMERCIAL (DUTY FREE) PRICES, USAID WOULD LET CONTRACTS WITH SHELL COSTING APPROXIMATELY \$3,000,000 TO REPLACE DFSC.

6. IN VIEW OF THE FACT THAT SHELL OIL COMPANY WILL NOT CONTINUE DELIVERIES UNDER DFSC CONTRACTS, WE REQUEST STATE/ADI/DEFENSE TO DESIGNATE URGENTLY USAID/LAOS AS THE CONTRACTING AGENT FOR THE SHELL COMPANY FUEL CON-LIMITED OFFICIAL USE

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TRACTS PRESENTLY HELD BY DFSC. WE URGE THAT LAO MASF FUNDS IN THE AMOUNT OF \$3,000,000 BE TRANSFERRED IN WASHINGTON TO APPROPRIATE REQUISITION CONTROL NUMBERS IN AID WORKING FUND (APPROPRIATION 72-43900, ALLOTMENT 439-40-439-00-69-41) FOR USE BY USAID/LAOS FOR POL CONTRACTING.
WHITEHOUSE

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